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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Special Report

Private Enterprise: Alive But Not Well in the USSR

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PRIVATE ENTERPRISE: ALIVE BUT NOT WELL IN THE USSR

Popular Western conceptions, or misconceptions, of the role of private economic activity in the Soviet Union probably run the gamut from the belief that it is insignificant to a suspicion that it plays a dominant part in providing the populace with food and a broad range of consumer services. The truth, as usual, lies somewhere between the extreme views. The Soviet economy is predominantly a socialized economy; yet certain private economic activities are permitted. The conduct of these activities invariably is restricted to an individual or family scale of operation, but the aggregate impact of private activity is significant.

PRINCIPAL FIELDS OF PRIVATE ECONOMIC ACTIVITY

Private economic activity in three fields is sanctioned, under strict controls, by the Soviet Government. The Soviet citizen is allowed to grow and market his own agricultural products, build his own home, and work in some professional, personal, or repair service field. In addition, he is known to indulge in various other economic activities illegally, sometimes with little interference from the authorities. Some of these illegal activities—such as prostitution and black market traffic in foreign currencies and consumer goods—are impressively evident to foreign visitors, yet have little impact on the economy at large. Others—particularly the theft of building materials and of agricultural products from socialized organizations—are less visible but may be of substantial economic importance. Unfortunately, the scarcity of data on illegal activities prevents discussion in precise quantitative terms.

Private agriculture consists of cultivating garden plots ranging in size up to an acre and a half, tending small flocks of poultry, and keeping livestock, usually only one or two head. The size of the plots and the numbers of livestock and poultry tended are strictly regulated, as are the

assignments of the plots themselves. In rural areas, plots on the socialized farms are allocated to households with one or more members employed either on state or collective farms or in other socialized enterprises or organizations. Plots also are assigned to households in urban areas whose heads have jobs in the socialized sector. For the most part, urban householders' plots are found in clusters on the outskirts of cities.

Because of the small size of the private plots and the market conditions, private agriculture concentrates on crops and products that require relatively little land. High value, labor-intensive products such as potatoes, vegetables, fruit, meat, milk, and eggs are dominant.

Most of the privately produced goods are consumed by their producers, but some are sold to socialized processing and distribution organizations and some are sold by their producers on farmers' markets known as collective farm markets. Prices in these markets, which are maintained by the authorities in all towns and cities, are largely determined by supply and demand and usually are higher than the fixed prices of the state retail stores. Product quality, however, is higher in the collective farm markets.

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Figure 1. На этом ухабе я дом построил
("I built a house on that bump!")

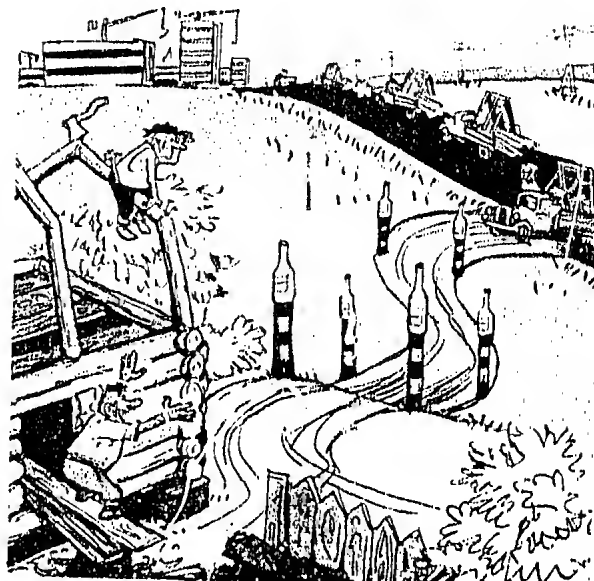


Figure 2. СТОЛБОВАЯ ДОРОГА
("The high road")

(FRUIT AND VEGETABLE STORE)



Figure 3. Мне пару малосольных огурчиков!
("How about a couple of nicely salted cucumbers!")

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-all cartoons from *Krokodil*

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Construction of dwellings is the most important nonagricultural type of private enterprise. Private construction is concentrated in rural areas and on the outskirts of smaller towns, where local authorities allocate parcels of land. As private building is limited to do-it-yourself arrangements, privately built houses characteristically are crudely and simply built and rectangular and single story in design. Unskilled labor is normally used, and many of the materials are cast-offs from state construction projects. Even caded materials sometimes are of first class quality, however. (See Figures 1 and 2.) Utilities, in rural areas especially, generally are lacking, except for electricity. Some new houses, however, are without even that. Single family residences are limited to 60 square meters (646 square feet) of floor space. This means that the typical privately built house measures only about 20 by 32 feet. If several families join to build a multifamily dwelling, space per family is not to exceed 60 square meters. Private construction is financed from personal savings and state loans.

Work in private services covers a broad and poorly defined range. It includes (1) professional services such as medical and dental care and the teaching of languages and music, (2) repair work on shoes, electrical appliances, musical instruments and housing, (3) personal services such as barbering, hairdressing, and sewing, and (4) handicraft work such as boot making, gold working, and embroidery. Also, there is a "gray" area in which service activities are tolerated but not legally sanctioned. Included in this area is work done on bicycles, motorcycles, and automobiles, house painting, furniture moving, and the delivery of goods.

IMPORTANCE OF PRIVATE ACTIVITY

The share of Soviet gross national product (GNP) generated by the private sector has been

declining irregularly over time. Since 1950 it has dropped from about 22 percent to a current level of approximately 10 percent. The absolute value of private production, however, increased slightly over this time span. Moreover, mere allusion to the proportion of GNP generated by the private sector underplays the importance of its contribution. Private activities contribute directly and appreciably to the quality of Soviet consumers' lives and are not qualitatively duplicated by the socialized sector.

About eight percent of GNP and 31 percent of net agricultural production are accounted for by private agricultural activity. Because of the low quality and spotty availability of perishable foodstuffs in the socialized stores, Soviet consumers rely on produce from their own plots or buy the major share of their high-quality vegetables, meat, dairy products, and other perishables directly from other private producers. Even the manager of a state fruit and vegetable store may depend on private vendors to satisfy his personal wants. (See Figure 3.)

The relatively large share of total crop output accounted for by the private sector (about one-fourth) is grown on about four percent of the total area under crops. In the private sector, the value of output per unit of land is nearly nine times as great as in the socialized sector. More than half of this difference in value is accounted for by the difference in crop composition in the two sectors. For example, vegetables are more common in the private sector and grain is more prevalent in the socialized. The rest of the difference can be chalked up to the application of more and better labor to each unit of land in the private sector. People who tend private plots give greater attention to weeding, watering, fertilizing, and killing pests. Partly because they exert such effort, the plot tenders can and do plant vegetables and potatoes more densely than farmers in

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the socialized sector. The diligence of private growers no doubt is due in large measure to the knowledge that the produce of their plots is their own for consumption or for sale.

Private production accounts for nearly 40 percent of all meat production, although the annual census of livestock shows that private owners have only about a quarter of the animals. The anomaly seems to be largely accounted for by reluctance of private producers to keep livestock through the winter, when maintenance costs are high. The livestock census is conducted on 1 January each year.

Privately owned livestock are not entirely maintained by feed grown on privately held land. In addition to the 21 million acres of land directly under the control of households—which includes one and a quarter million acres of wild hayland—privately owned livestock are sustained by roughly 250 million acres of pasture and 70 million acres of hayland in the socialized sector. In addition, the household members receive feed as payment in kind for work in the socialized sector, and, apparently, they steal a good deal more from the state and collective farms.

As has been noted, a portion of private farm production is sold through the collective farm markets. In 1968, collective farm markets accounted for about five percent of retail sales of all food, but for larger portions of retail sales of perishables, such as eggs (20 percent), meat (10 percent), and milk (10 percent). Even larger proportions of fruit and vegetables are sold in the collective farm markets.

In 1968, private construction of housing generated only about two percent of GNP and absorbed only one sixth of investment in housing, but it accounted for about one third (by floor area) of the housing completed. Roughly 55 per-

cent of the total amount of housing now is privately owned, in contrast to 70 percent in 1950. In urban localities the private share is only about one third and is falling rapidly. Private construction is most common in the rural areas, where socialized construction of housing is least developed and 80 percent of the dwellings still are privately owned.

Privately rendered services generate less than one half of one percent of GNP and comprise less than five percent of all consumer services. Nevertheless they uniquely fulfill certain specific needs—particularly in small towns and rural areas—that are not served by socialized service organizations.

POLICY TOWARD PRIVATE ECONOMIC ACTIVITY

Official government policy toward private economic activity over the long run has been characterized by antagonism and repression. This approach, which has been common to the Stalin and post-Stalin governments, is rooted in the ideological underpinnings of Communism. It is related to an assumption that all Soviet citizens sooner or later voluntarily will surrender their rights to engage in private enterprise when the superiority of socialized production becomes manifest.

Despite their continuing hostility toward private activity, however, various leaders have demonstrated a good deal of flexibility in the short run, particularly toward private agricultural production. Changes in policy toward private farming and resulting fluctuations in private farm output have been rather prominent and appear to be related closely to success or lack thereof in the socialized sector. After a period of relatively rapid growth—or even a single year of exceptional performance by the collective and state farms—there

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is a tendency to tighten the restrictions on private farming. Limits on the size of private plots and livestock holdings are made more stringent, taxes are increased, confiscations occur, less feed is made available to householders, and the number of days that collective farm members are required to work in the socialized sector is increased. Then, when socialized farm production falls short of needs and expectations, restrictions on private agricultural activity are relaxed.

The 1956-64 period under Khrushchev was a time of restriction and decline in private agricultural production. When Brezhnev and Kosygin assumed power in late 1964, socialized agriculture was floundering, and the new government began to encourage private farming. By 1967, socialized agriculture was performing more satisfactorily, and the attitude of the leaders toward private farming became ambivalent or indifferent. In the absence of direct orders to the contrary, local authorities, responding to continuing pressure from higher authorities for greater socialized production, then put more restrictions on the private farmers. This restrictiveness, combined with side effects from certain official policies in the socialized sector, brought a decline in individual livestock holdings and a standstill in private production of crops and meat and dairy products. Concurrently, socialized output of meat and dairy products leveled off, and this at a time when consumer demand for high quality foodstuffs was increasing rapidly. In late 1969 there were signs that once again a turning point in official policy had been reached. The leadership began to urge local authorities to aid the households in maintaining or expanding their livestock holdings. Local Communist Party organizations were ordered to check on the response to these exhortations. Although it is too early to judge, the downward trend in private livestock holdings may be slowing. Even though the value of private livestock

holdings declined five percent during 1969, hog numbers increased by more than ten percent after three consecutive years of decline.

The short-run attitude of the leadership toward private construction of dwellings has been less variable, but periods of expansion and contraction of private home building have occurred. Private building surged during 1957-60 in response to official encouragement, only to decrease in the early 1960s when new constraints were imposed. After 1966 there was some further reduction in private building, but that apparently was caused by shortages of building materials rather than by administrative restriction. The Brezhnev-Kosygin government seems to want to maintain private building at approximately the current level. Construction by individual would-be home owners is not a very promising approach to the extreme shortage of housing that prevails in Soviet cities, but it does play a very useful role in smaller towns and rural areas.

Soviet leaders have found little reason to vary their generally hostile policies toward the private provision of services. Complete elimination of such activity, however, clearly would impose unnecessary hardships on Soviet consumers and further strain the capacity of the already inadequate socialized service network. Consumer demand for privately provided services appears to be increasing as money incomes rise. Since 1965, suggestions that the private rendering of services be allowed to expand have been publicized, but little increase has been noted in the volume or scope of private service activity.

Soviet leaders seem to realize that private economic activity continues to enhance the quality of life in the USSR in ways that cannot be

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duplicated by socialized organizations. Hence it seems unlikely that they will indulge their ideologically based hostility by outlawing private en-

terprise altogether. Rather, they probably will continue to permit it under varying degrees of restriction.*

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